

# ECONOMIC NEWS

## Canada: Inflation amid the Calm before the Storm

### HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.6% in January, in line with our expectations.
- ▶ The components that contributed the most to this increase were purchases of passenger cars (+2.8%), gasoline (+6.1%), telephone services (+4.2%), fresh vegetables (+4.7%) and food purchased from restaurants (+0.6%).
- ▶ In contrast, the components that contributed the most to the decrease were electricity (-4.1%), air transportation (-4.8%), mortgage interest costs (-1.0%), bakery products (-2.6%) and footwear (-2.1%).
- ▶ The total annual inflation rate went from 0.7% to 1.0%.
- ▶ The annual average variation in the three benchmark indexes used by the Bank of Canada (BoC) rose from 1.4% to 1.5%.

### COMMENTS

For the 11th straight month, the total annual inflation rate remained very low, hovering between -0.4% and 1.0%. The next set of data, which will be for February, should indicate fairly weak price growth.

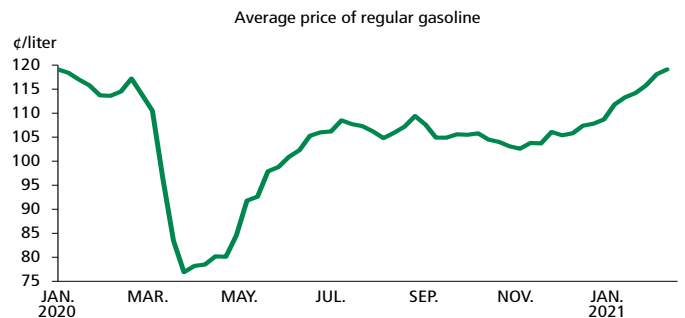
However, the situation is likely to change quickly in March and April, and a major acceleration in the annual variation in total CPI is expected. Gasoline prices will be comparable to those seen in March and April 2020, when they fell drastically due to the first wave of the pandemic. The recent rise in gasoline prices should give a major boost to the annual variation in total CPI.

### IMPLICATIONS

However, our estimates indicate that the increase in total inflation will likely be short-lived, as the impact of higher gasoline prices will gradually be absorbed. As a result, the anticipated rise in inflation shouldn't concern the BoC, since core inflation remains highly stable.

### GRAPH 1

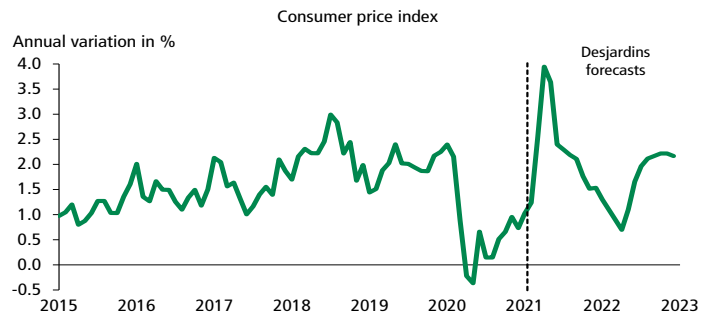
#### Gasoline prices have been climbing for a few weeks



Sources: Natural Resources Canada and Desjardins, Economic Studies

### GRAPH 2

#### A temporary acceleration in inflation is expected in the spring



Sources: Statistics Canada and Desjardins, Economic Studies

Benoit P. Durocher, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist  
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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